

# MODESTO CITY SCHOOLS

Audit Report

## **STANDARDIZED TESTING AND REPORTING PROGRAM**

Chapter 828, Statutes of 1997

*July 1, 1999, through June 30, 2004*



**JOHN CHIANG**  
California State Controller

August 2013



**JOHN CHIANG**  
**California State Controller**

August 30, 2013

Nancy Cline, President  
Board of Education  
Modesto City Schools  
426 Locust Street  
Modesto, CA 95351

Dear Ms. Cline:

The State Controller's Office audited the costs claimed by Modesto City Schools for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 1999, through June 30, 2004.

The district claimed \$976,634 for the mandated program. Our audit found that \$459,627 is allowable and \$517,007 is unallowable. The costs are unallowable primarily because the district claimed unsupported and ineligible costs. The State paid the district \$291,707. Allowable costs claimed exceed the amount paid by \$167,920.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/sk

cc: Pam Able, Superintendent  
Modesto City Schools  
Julie Chapin, Associate Superintendent, Business Services  
Modesto City Schools  
Luis Molina, Chairperson, Board of Education  
Stanislaus County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education

Carol Bingham, Director  
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Thomas Todd, Assistant Program Budget Manager  
Education Systems Unit  
California Department of Finance  
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Division of Accounting and Reporting  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Modesto City Schools for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 1999, through June 30, 2004.

The district claimed \$976,634 for the mandated program. Our audit found that \$459,627 is allowable and \$517,007 is unallowable. The costs are unallowable primarily because the district claimed unsupported and ineligible costs. The State paid the district \$291,707. Allowable costs claimed exceed the amount paid by \$167,920.

## Background

Chapter 828, Statutes of 1997, amended Education Code sections 60607, 60609, 60615, and 60630, and added Education Code sections 60640 through 60641, and 60643. Chapter 828, Statutes of 1997, and the implementing regulations at *California Code of Regulations*, Title 5, sections 850 through 904, established the Standardized Testing and Reporting (STAR) Program related to achievement testing that school districts must administer to pupils in the state.

The STAR Program requires school districts, between March 15 and May 15 of each year, to test all students in grades 2 through 11 with a nationally normed achievement test designated by the State Board of Education. School districts administered the Stanford Achievement Test, Ninth Edition (SAT-9) in English to all pupils enrolled in grades 2 through 11 from fiscal year (FY) 1997-98 through FY 2001-02. The California Achievement Test, Sixth Edition Survey (CAT/6) replaced the SAT-9 effective for FY 2002-03. School districts administered the CAT/6 in English to all pupils enrolled in grades 2 through 11 for FY 2002-03 and FY 2003-04. In addition, school districts administered an additional test, the Spanish Assessment of Basic Education, Second Edition (SABE/2), to every Spanish-speaking pupil of limited English proficiency who was enrolled in grades 2 through 11 if the pupil was initially enrolled in any public school in the state less than 12 months prior to the date that the English language SAT-9 was given. School districts are also required to engage in numerous activities related to test administration and reporting.

On August 24, 2000, the Commission on State Mandates (CSM) determined that Chapter 828, Statutes of 1977, and the implementing regulations at *California Code of Regulations*, Title 5, section 850 through 904, imposed a state mandate upon school districts reimbursable under Government Code section 17561 commencing October 10, 1997.

The parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on January 24, 2002. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

On reconsideration by Statutes of 2004, Chapter 216, section 34, and Statutes 2004, chapter 895, section 19, the CSM found that effective July 1, 2004, many of the reimbursable activities were either federally mandated or no longer required, and thus were not reimbursable. Accordingly, the CSM deleted the non-reimbursable activities and renamed the program to the National Norm-Referenced Achievement Test Program effective July 1, 2004.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Standardized Testing and Reporting Program for the period of July 1, 1999, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Modesto City Schools claimed \$976,634 for costs of the Standardized Testing and Reporting Program. Our audit found that \$459,627 is allowable and \$517,007 is unallowable.

For the fiscal year (FY) 1999-2000 claim, the State paid the district \$212,069 from funds appropriated under Chapter 724, Statutes of 2010. Our audit found that \$147,142 is allowable. The State will apply \$64,927 against any balances of unpaid mandated program claims due the district as of October 19, 2010.

For the FY 2000-01 claim, the State paid the district \$79,638 from funds appropriated under Chapter 724, Statutes of 2010. Our audit found that \$33,850 is allowable. The State will apply \$45,788 against any balances of unpaid mandated program claims due the district as of October 19, 2010.

For the FY 2001-02 claim, the State made no payment to the district. Our audit found that \$87,470 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the district. Our audit found that \$98,001 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the district. Our audit found that \$93,164 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

### **Views of Responsible Officials**

We discussed our audit results with the district's representatives during an exit conference conducted on August 16, 2013. Julie Chapin, Associate Superintendent, Business Services; and Sheri Cummings, Reprographics Supervisor, agreed with the audit results. Ms. Chapin declined a draft audit report and agreed that we could issue the audit report as final.

### **Restricted Use**

This report is solely for the information and use of Modesto City Schools, the Stanislaus County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

August 30, 2013

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2004

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 19,472	\$ 815	\$ (18,657)	Finding 1
Test materials, supplies, and equipment	4,294	—	(4,294)	Finding 1
Pre-test and post-test coordination	57,790	53,115	(4,675)	Finding 1
Test administration	15,154	14,483	(671)	Finding 1
Reporting and recordkeeping	7,612	6,767	(845)	Finding 1
Total salaries and benefits	104,322	75,180	(29,142)	
Materials and supplies:				
Test materials, supplies, and equipment	139,599	99,506	(40,093)	Finding 2
Reporting and recordkeeping	6,475	—	(6,475)	Finding 2
Total materials and supplies	146,074	99,506	(46,568)	
Total direct costs	250,396	174,686	(75,710)	
Indirect costs	14,823	10,341	(4,482)	Finding 4
Total direct and indirect costs	265,219	185,027	(80,192)	
Less offsetting reimbursements	(53,150)	(37,885)	15,265	Finding 5
Total program costs	\$ 212,069	147,142	\$ (64,927)	
Less amount paid by the State <sup>2</sup>		(212,069)		
Allowable costs claimed in excess of (less than) amount paid		\$ (64,927)		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 21,089	\$ 737	\$ (20,352)	Finding 1
Pre-test and post-test coordination	77,235	48,035	(29,200)	Finding 1
Test administration	21,552	13,098	(8,454)	Finding 1
Reporting and recordkeeping	19,565	6,120	(13,445)	Finding 1
Total salaries and benefits	139,441	67,990	(71,451)	
Materials and supplies:				
Reporting and recordkeeping	13,627	—	(13,627)	Finding 2
Total materials and supplies	13,627	—	(13,627)	



**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2000, through June 30, 2001 (continued)</u>				
Total direct costs	153,068	67,990	(85,078)	
Indirect costs	8,985	3,991	(4,994)	Finding 4
Total direct and indirect costs	162,053	71,981	(90,072)	
Less offsetting reimbursements	(61,531)	(38,131)	23,400	Finding 5
Total program costs	<u>\$ 100,522</u>	33,850	<u>\$ (66,672)</u>	
Less amount paid by the State <sup>2</sup>		(79,638)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (45,788)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 66,896	\$ 7,175	\$ (59,721)	Finding 1
Pre-test and post-test coordination	159,170	76,573	(82,597)	Finding 1
Test administration	60,127	15,350	(44,777)	Finding 1
Reporting and recordkeeping	45,359	13,931	(31,428)	Finding 1
Total salaries and benefits	331,552	113,029	(218,523)	
Materials and supplies:				
Reporting and recordkeeping	3,528	4,144	616	Finding 2
Total materials and supplies	3,528	4,144	616	
Contract services:				
Reporting and recordkeeping	—	1,135	1,135	Finding 3
Total contract services	—	1,135	1,135	
Total direct costs	335,080	118,308	(216,772)	
Indirect costs	19,535	6,897	(12,638)	Finding 4
Total direct and indirect costs	354,615	125,205	(229,410)	
Less offsetting reimbursements	(61,218)	(37,735)	23,483	Finding 5
Total program costs	<u>\$ 293,397</u>	87,470	<u>\$ (205,927)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 87,470</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 20,426	\$ 2,523	\$ (17,903)	Finding 1
Pre-test and post-test coordination	86,570	74,116	(12,454)	Finding 1
Test administration	51,462	33,818	(17,644)	Finding 1
Reporting and recordkeeping	19,968	13,759	(6,209)	Finding 1
Total salaries and benefits	178,426	124,216	(54,210)	

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Materials and supplies:				
Reporting and recordkeeping	9,480	5,718	(3,762)	Finding 2
Total materials and supplies	9,480	5,718	(3,762)	
Contract services:				
Reporting and recordkeeping	1,617	975	(642)	Finding 3
Total contract services	1,617	975	(642)	
Total direct costs	189,523	130,909	(58,614)	
Indirect costs	8,101	5,943	(2,158)	Finding 4
Total direct and indirect costs	197,624	136,852	(60,772)	
Less offsetting reimbursements	—	(38,851)	(38,851)	Finding 5
Total program costs	<u>\$ 197,624</u>	98,001	<u>\$ (99,623)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 98,001</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 9,898	\$ 1,301	\$ (8,597)	Finding 1
Pre-test and post-test coordination	171,060	89,356	(81,704)	Finding 1
Test administration	24,962	18,165	(6,797)	Finding 1
Reporting and recordkeeping	19,240	10,086	(9,154)	Finding 1
Total salaries and benefits	225,160	118,908	(106,252)	
Materials and supplies:				
Test administration	457	—	(457)	Finding 2
Reporting and recordkeeping	1,291	5,888	4,597	Finding 2
Total materials and supplies	1,748	5,888	4,140	
Contract services:				
Reporting and recordkeeping	—	746	746	Finding 3
Total contract services	—	746	746	
Total direct costs	226,908	125,542	(101,366)	
Indirect costs	11,213	6,252	(4,961)	Finding 4
Total direct and indirect costs	238,121	131,794	(106,327)	
Less offsetting reimbursements	(65,099)	(38,630)	26,469	Finding 5
Total program costs	<u>\$ 173,022</u>	93,164	<u>\$ (79,858)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 93,164</u>		

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 1999, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 137,781	\$ 12,551	\$ (125,230)	
Test materials, supplies, and equipment	4,294	—	(4,294)	
Pre-test and post-test coordination	551,825	341,195	(210,630)	
Test administration	173,257	94,914	(78,343)	
Reporting and recordkeeping	111,744	50,663	(61,081)	
Total salaries and benefits	978,901	499,323	(479,578)	
Materials and supplies:				
Test materials, supplies, and equipment	139,599	99,506	(40,093)	
Test administration	457	—	(457)	
Reporting and recordkeeping	34,401	15,750	(18,651)	
Total materials and supplies	174,457	115,256	(59,201)	
Contract services:				
Reporting and recordkeeping	1,617	2,856	1,239	
Total contract services	1,617	2,856	1,239	
Total direct costs	1,154,975	617,435	(537,540)	
Indirect costs	62,657	33,424	(29,233)	
Total direct and indirect costs	1,217,632	650,859	(566,773)	
Less offsetting reimbursements	(240,998)	(191,232)	49,766	
Total program costs	\$ 976,634	459,627	\$ (517,007)	
Less amount paid by the State		(291,707)		
Allowable costs claimed in excess of (less than) amount paid		\$ 167,920		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610).

# Findings and Recommendations

## **FINDING 1— Unallowable salaries and benefits**

The district claimed \$978,901 in salaries and benefits for the audit period. We determined that \$499,323 is allowable and \$479,578 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs.

The following table summarizes the unallowable salaries and benefits costs by fiscal year and reimbursable activities:

Cost Categories	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Salaries and benefits:						
Training, policies, and procedures	\$ (18,657)	\$ (20,352)	\$ (59,721)	\$ (17,903)	\$ (8,597)	\$ (125,230)
Test materials, supplies, and equipment	(4,294)	-	-	-	-	(4,294)
Pre-test and post-test coordination	(4,675)	(29,200)	(82,597)	(12,454)	(81,704)	(210,630)
Test administration	(671)	(8,454)	(44,777)	(17,644)	(6,797)	(78,343)
Reporting and recordkeeping	(845)	(13,445)	(31,428)	(6,209)	(9,154)	(61,081)
Audit adjustment	<u>\$ (29,142)</u>	<u>\$ (71,451)</u>	<u>\$ (218,523)</u>	<u>\$ (54,210)</u>	<u>\$ (106,252)</u>	<u>\$ (479,578)</u>

### **Unsupported and Ineligible Costs**

The district claimed costs for fiscal year (FY) 2000-01 through FY 2003-04 based on time logs segregated by allowable activities. We reconciled the time logs to claimed hours. We accepted all hours supported with the documentation that met the reimbursable requirements of the mandated program.

For FY 1999-2000, the district's documentation did not segregate costs by allowable activities and therefore did not support whether claimed costs were allowable. We used the current audit results for FY 2000-01 and applied the Implicit Price Deflator (IPD) to determine prior year costs.

Our review of supporting documentation found that the district claimed unsupported and ineligible salaries and benefits costs totaling \$174,000 for the audit period.

The following table summarizes the misstated salaries and benefits that resulted from unsupported and ineligible hours reported on the time logs:

Cost Categories	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Salaries and benefits:						
Training, policies, and procedures	\$ (18,329)	\$ (19,900)	\$ (55,256)	\$ (16,242)	\$ (7,706)	\$ (117,433)
Test materials, supplies, and equipment	(4,294)	-	-	-	-	(4,294)
Pre-test and post-test coordination	16,726	278	(34,944)	36,321	(20,477)	(2,096)
Test administration	5,165	(416)	(35,225)	4,612	5,650	(20,214)
Reporting and recordkeeping	1,882	(9,689)	(22,758)	2,845	(2,243)	(29,963)
Audit adjustment	<u>\$ 1,150</u>	<u>\$ (29,727)</u>	<u>\$ (148,183)</u>	<u>\$ 27,536</u>	<u>\$ (24,776)</u>	<u>\$ (174,000)</u>

For training, policies, and procedures, the district claimed unsupported and ineligible training hours in each fiscal year, exceeding a one-time training per employee requirement of the mandated program.

For test materials, supplies, and equipment, pre-test and post-test coordination, test administration, and reporting and recordkeeping components, the district reported the following:

- Unsupported hours claimed;
- Hours incurred for duplicated activities;
- Hours that did not reconcile to the time logs;
- Duplicate time logs; and
- Non-district staff employees reporting activities only performed at the district office level.

### **Productive Hourly Rates**

The district did not support productive hourly rates (PHRs) for the entire audit period using district's payroll information. However, we were able to determine the average PHRs for each job classification for FY 2003-04 using management, certificated, and classified teacher salary schedules and related benefit tables. Once we established the average PHRs for FY 2003-04, we applied the IPD to determine productive hourly rates for FY 2000-01, FY 2001-02 and FY 2002-03.

The PHR calculations resulted in minor variances that were not material and were in the district's favor for the audit period. We used the audited PHRs to calculate allowable costs.

### **Reimbursable Percentage**

To calculate allowable costs, we multiplied the allowable hours by the allowable productive hourly rates for various district classifications involved in each reimbursable activity. We further calculated the portion of the salaries and benefits attributable to the STAR tests that are reimbursable under the mandate.

The district's STAR costs included the following tests: California Standards Tests (CST); California Alternate Performance Assessment (CAPA); California Modified Assessment (CMA); Stanford Achievement Test, Ninth Edition (SAT/9); California Achievement Test, Sixth Edition Survey (CAT/6 Survey); and Spanish Assessment of Basic Education, Second Edition (SABE/2). The CST, CAPA, and CMA tests are not reimbursable because they were not pled in the test claim that created this mandate. The district accounted for the costs of the STAR tests collectively, without separately identifying costs by individual test. Consequently, the district claimed costs not reimbursable under the mandate.

To segregate reimbursable costs, we determined the percentages of the tests that related to the mandate based on the number of tests published on the California Department of Education (CDE) STAR website. The reimbursable percentages represented the ratio of mandated tests divided by all STAR tests administered in the district.

Modesto City Schools is composed of an elementary school district and a high school district with a common Board of Education and administration. The CDE's STAR testing statistics provided information for each of the two districts within Modesto City Schools. We calculated the reimbursable percentage for the elementary school district and high school district separately and averaged the results to arrive at reimbursable percentages for Modesto City Schools.

The reimbursable percentages for mandated costs were as follows:

- FY 1999-2000 – Elementary: 67.72% and High School: 75.52%. Average of 71.28%.
- FY 2000-01 – Elementary: 64.72% and High School: 59.29%. Average of 61.97%.
- FY 2001-02 – Elementary: 66.65% and High School: 56.98%. Average of 61.64%.
- FY 2002-03 – Elementary: 65.28% and High School: 54.69%. Average of 60.31%.
- FY 2003-04 – Elementary: 63.47% and High School: 54.77%. Average of 59.34%.

We applied the average reimbursable percentages to allowable costs.

The following table summarizes unallowable salaries and benefits at the audited PHRs related to the non-reimbursable portion of the STAR tests, totaling \$305,578 for the audit period:

Cost Categories	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Salaries and benefits:						
Training, policies, and procedures	\$ (328)	\$ (452)	\$ (4,465)	\$ (1,661)	\$ (891)	\$ (7,797)
Test materials, supplies, and equipment	-	-	-	-	-	-
Pre-test and post-test coordination	(21,401)	(29,478)	(47,653)	(48,775)	(61,227)	(208,534)
Test administration	(5,836)	(8,038)	(9,552)	(22,256)	(12,447)	(58,129)
Reporting and recordkeeping	(2,727)	(3,756)	(8,670)	(9,054)	(6,911)	(31,118)
Audit adjustment	<u>\$ (30,292)</u>	<u>\$ (41,724)</u>	<u>\$ (70,340)</u>	<u>\$ (81,746)</u>	<u>\$ (81,476)</u>	<u>\$ (305,578)</u>

The program's parameters and guidelines, (section V.A.1, Claim Preparation and Submission – Direct Cost Reporting – Salaries and Benefits) state:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and

related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The parameters and guidelines, (section VI.A, Supporting Data – Source Documents) state that all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities.

The parameters and guidelines, (section IV.A, Reimbursable Activities – Training Policies and Procedures) state:

Reviewing the requirements of the STAR Program and conducting or attending training sessions. Increased costs for substitute teacher time during the school day or for teacher stipends to attend training sessions outside the regular school day (after school or on Saturday) are eligible for reimbursement. However, the time the teacher spends to attend training sessions during that teacher's normal classroom hours is not reimbursable. (One-time activity per employee per test site)

### Recommendation

We recommend that the district ensure that all claimed costs are for activities reimbursable under the program's parameters and guidelines and are properly supported with source documents.

## **FINDING 2— Unallowable materials and supplies**

The district claimed \$174,457 in materials and supplies for the audit period. Our audit determined that \$115,256 in materials and supplies costs is allowable and \$59,201 is unallowable for the audit period. The unallowable costs occurred primarily because the district claimed ineligible costs.

The following table summarizes the misstated materials and supplies costs by fiscal year and reimbursable activities:

Cost Categories	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Materials and supplies:						
Test materials, supplies, and equipment	\$ (40,093)	\$ -	\$ -	\$ -	\$ -	\$ (40,093)
Test administration	-	-	-	-	(457)	(457)
Reporting and recordkeeping	(6,475)	(13,627)	616	(3,762)	4,597	(18,651)
Audit adjustment	<u>\$ (46,568)</u>	<u>\$ (13,627)</u>	<u>\$ 616</u>	<u>\$ (3,762)</u>	<u>\$ 4,140</u>	<u>\$ (59,201)</u>

### **Ineligible and Misstated Invoices**

Review of supporting documentation found that the district overstated materials and supplies totaling \$8,731 for the audit period. The overstated costs occurred because the district claimed ineligible and misstated costs.

Specifically, the district claimed ineligible test materials, supplies, and equipment costs of \$6,475 for FY 1999-2000 and \$13,627 for FY 2000-01 that were inadvertently reported under the reporting and recordkeeping component. The costs were unallowable because they occurred outside the parameters and guidelines' reimbursable period of January 2, 1998, through December 15, 1999. In addition, the district reported understated materials and supplies costs totaling \$11,371 for FY 2001-02 through FY 2003-04.

### **Reimbursable Percentage**

We also calculated the portion of allowable materials and supplies attributed to STAR tests that are reimbursable under the mandate. The mandate-related allowable amounts were calculated by applying the reimbursable ratio as identified in Finding 1. The application of the mandate-related percentage resulted in the audit adjustment totaling \$50,470 for the audit period.

The parameters and guidelines (sections V.A.2, Claim Preparation and Submission – Direct Cost Reporting – Materials and Supplies) require the district to report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities.

The parameters and guidelines (section IV.B, Reimbursable Activities – Test Materials, Supplies, and Equipment) state that Test Materials, Supplies, and Equipment costs are reimbursable for the period of January 2, 1998 through December 15, 1998.

The parameters and guidelines (sections VI.A, Supporting Data – Source Documents) state that all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities.

### **Recommendation**

We recommend that the district ensure that all claimed costs are for activities reimbursable under the programs parameters and guidelines and are properly supported with source documents.

### **FINDING 3— Understated contract services costs**

The district claimed \$1,617 in contract services costs for FY 2002-03. Our audit determined that allowable contract services costs were understated by \$1,239 for the audit period. The understated costs occurred because the district did not report allowable contract services costs in FY 2001-02 and FY 2003-04. We also applied the mandate-related ratio identified in Finding 1 to determine the allowable costs for the audit period.



The following table summarizes the misstated contract services costs by fiscal year and reimbursable activity:

Cost Categories	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Contract services:				
Reporting and record keeping	\$ 1,135	\$ (642)	\$ 746	\$ 1,239
Audit adjustment	\$ 1,135	\$ (642)	\$ 746	\$ 1,239

The parameters and guidelines (sections V.A.3, Claim Preparation and Submission – Direct Cost Reporting – Contract Services) require the district to report the cost of contracted services performed to implement the reimbursable activities.

The parameters and guidelines (sections VI.A, Supporting Data – Source Documents) state that all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities.

#### Recommendation

We recommend that the district ensure that all claimed costs are for activities reimbursable under the programs parameters and guidelines and are properly supported with source documents.

#### **FINDING 4— Overstated indirect costs**

The district claimed \$62,657 in indirect costs for the audit period. Our audit determined that \$33,424 is allowable and \$29,233 is unallowable. The unallowable indirect costs totaling \$29,867 resulted from direct cost adjustments identified in Findings 1, 2, and 3. The district also did not claim applicable indirect costs for FY 2002-03 and FY 2003-04 related to materials, supplies, and contract services. The allowable indirect costs were understated by \$634 for FY 2002-03 and FY 2003-04.

The following table summarizes the indirect cost calculations by fiscal year:

Cost Categories	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Indirect costs:						
Allowable direct costs	\$ 174,686	\$ 67,990	\$ 118,308	\$ 130,909	\$ 125,542	\$ 617,435
Allowable indirect rate	5.92%	5.87%	5.83%	4.54%	4.98%	
Allowable indirect costs	10,341	3,991	6,897	5,943	6,252	\$ 33,424
Less claimed indirect costs	14,823	8,985	19,535	8,101	11,213	62,657
Audit adjustment	\$ (4,482)	\$ (4,994)	\$ (12,638)	\$ (2,158)	\$ (4,961)	\$ (29,233)

The parameters and guidelines (section V.B, Claim Preparation and Submission – Indirect Cost Rates) state that school districts must use the indirect cost rate approved by the CDE.

Recommendation

We recommend that the district claim indirect costs that are mandate-related and appropriately supported. Additionally, we recommend the district apply the indirect cost rate to all claimed direct costs.

**FINDING 5—  
Overstated offsetting  
reimbursements**

The district overstated offsetting reimbursements totaling \$49,766 for the audit period (overstated by \$38,851 and understated by \$88,617).

The district did not report the mandate-related portion of annual STAR apportionments it received from the CDE in all fiscal years, excluding FY 2002-03. The district did not report any offsetting reimbursements in FY 2002-03. We calculated the misstated reimbursement by:

- Verifying the amounts of annual STAR apportionments received by the district, and
- Multiplying the reimbursable ratio of mandated tests to the number of all STAR tests administered (as identified in Finding 1).

The following table summarizes the misstated offsetting reimbursements by fiscal year:

	Fiscal Year					
	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
Offsetting reimbursements apportionments:						
CDE apportionments - Modesto City Elem.	\$ 30,444	\$ 35,383	\$ 35,368	\$ 36,519	\$ 36,269	
CDE apportionments - Modesto City High	22,706	26,148	25,850	27,900	28,830	
Total CDE apportionments	\$ 53,150	\$ 61,531	\$ 61,218	\$ 64,419	\$ 65,099	\$ 305,417
Mandate-related percentage	-(71.28%)	-(61.97%)	-(61.64%)	-(60.31%)	-(59.34%)	
Audited apportionments	(37,885)	(38,131)	(37,735)	(38,851)	(38,630)	\$ (191,232)
Claimed CDE apportionments	53,150	61,531	61,218	-	65,099	240,998
Audit adjustment	\$ 15,265	\$ 23,400	\$ 23,483	\$ (38,851)	\$ 26,469	\$ 49,766

The parameters and guidelines (section VII, Offsetting Savings and Reimbursements) state:

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, including but not limited to, service fees collected, federal funds, and other state funds, shall be identified and deducted from the claim.

Recommendation

We recommend that the district ensure that all applicable reimbursements are offset on its claims against its mandated program costs.

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